



BRIEF REVIEW

OF THE PRESIDENT'S FY 2004 BUDGET

FEBRUARY 4, 2003

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SENATE BUDGET COMMITTEE
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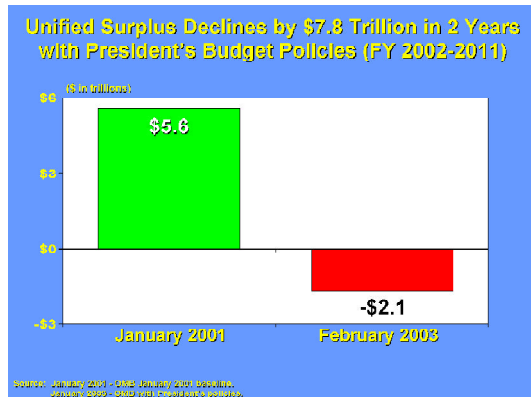
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THE PRESIDENT'S BUDGET CONTINUES THE FAILED ECONOMIC POLICIES OF THE PAST

ANALYSIS OF THE PRESIDENT'S FY 2004 BUDGET
SENATE BUDGET COMMITTEE - DEMOCRATIC STAFF
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President Bush has submitted a new budget that would continue the failed economic policies of his



first two budgets. Despite the fact that enactment of the massive tax cut for the wealthy he proposed in his first budget has been followed by a sagging economy and a return to deficits, his new budget proposes another huge tax cut for the same people. The new tax cuts would push the nation even further into deficits and debt and would slow long-term economic growth. Enactment of President Bush's new budget proposals would complete the irresponsible process of turning projected 10-year surpluses of \$5.637 trillion into a \$2.122 trillion deficit. That is an historic \$7.8 trillion reversal in just two years in office.

THE PROMISE

When President Bush submitted his first budget two years ago, both the administration and the Congressional Budget Office projected federal budget surpluses would total \$5.6 trillion over the 10-year period from 2002 through 2011. In that budget, President Bush proposed using a large part of that projected surplus to pay for a tax cut and he promised that the nation could afford it:

"Tax relief is central to my plan to encourage economic growth, and we can proceed with tax relief without fear of budget deficits, even if the economy softens."

President Bush
Remarks at Western Michigan University
March 27, 2001

THE REALITY

Despite the President's assurances, after four straight years of surpluses, the enactment of the President's tax cut was followed by a return to deficits in 2002. So last year the administration revised its promise:

"[O]ur budget will run a deficit that will be small and short-term ..."

President Bush
State of the Union Address
January 29, 2002

Of the \$5.6 trillion surplus projected in 2001, only \$20 billion remains, under CBO's baseline.

But the Congressional Budget Office last week confirmed that deficits will be neither small nor short-term. In fact, CBO now says that of the \$5.6 trillion projected surplus for 2002 through 2011, only \$20 billion remains. And instead of being debt free by 2008 as was projected in 2001, CBO now forecasts that the nation's publicly held debt will skyrocket to close to \$4 trillion. Unfortunately, even these sobering projections seriously underestimate the extent of our return to deficits. CBO's projections assume no change in current policies – that is, the President's 2001 tax cuts will expire in 2010 as scheduled in current law, there will be no additional funds to fight a war in Iraq, there will be no Medicare prescription drug benefit, and there will be no other changes in current policies to meet any national need. Clearly, when these additional items are factored in, the deficit figures will be far worse.

The budget deficit projected by OMB for 2003 is \$304 billion – the largest deficit in U.S. history.

Recent economic data have also confirmed that the President's tax cuts did not put the economy back on track. They show that the economy grew at an anemic rate of 0.7 percent in the last quarter of 2002 and that average annual growth has fallen by more than 60 percent during the Bush administration, relative to the growth achieved during the previous administration (1.4 percent a year in 2001 through 2002 versus 3.6 percent a year in 1993 through 2000).

The President's own budget confirms the deterioration of the budget and economic outlook during his first two years – it projects record deficits of more than \$300 billion both this year and next, and forecasts economic growth of only 2.9 percent this year.

THE OUTLOOK UNDER THE PRESIDENT'S NEW BUDGET

Despite the clear evidence that the policies he proposed in his first two budgets have failed, the President's new budget proposes more of the same. The centerpiece of the new budget is tax cuts for the wealthiest Americans that would cost \$1.8 trillion over the next 10 years (including interest costs). And, as in the past two years, the budget does not even pretend to pay for the costs of those tax cuts.

The administration estimates that deficits will be \$304 billion this year and \$307 billion in 2004 if the President's proposals are enacted. It assumes that deficits will begin declining in 2005, but will still total nearly \$200 billion in 2008. In order to hide the fact that the President's policies will keep the budget deep in deficit for many years after that, the budget does not show any deficit estimates for years beyond 2008.

Table 1: President's 2004 Budget: Estimates Relative to OMB Baseline													
(\$ billions)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	04-08	04-13
Deficit/surplus	-304	-307	-208	-201	-178	-190	?	?	?	?	?	-1,084	?
Excluding Social Security	-468	-482	-407	-412	-406	-433	?	?	?	?	?	-2,140	?

\$7.8 Trillion Fiscal Reversal Under Bush Budget

But a backup table provided by OMB does demonstrate just how astounding the deterioration in the budget outlook has been under President Bush's policies. As indicated above, both the Bush administration and CBO projected that there would be a cumulative surplus of \$5.6 trillion in 2002 through 2011 if the policies then in effect remained unchanged. Now, assuming the policies proposed in the President's new budget are adopted, OMB estimates there would be a deficit of \$2.1 trillion over that 10-year period. That represents a stunning fiscal downturn of \$7.8 trillion in just two years of the Bush administration.

The dramatic reversal from projected record surpluses to huge deficits also dramatically affects the amount of debt the federal government will have to issue. In January 2001, CBO projected that the federal debt held by the public would be virtually eliminated by 2008. But, under President's Bush's budget policies, OMB estimates the debt held by the public in 2008 would be \$5 trillion.

What is Left Out of the President's Budget

Aside from the tax cut for the wealthy, the President's budget is most notable for what is not in his plan instead of what is in it. Key items with huge expenses are apparently left out of the budget to make the President's tax cutting proposals appear more affordable. The President's budget is missing the following items:

- *Second half of decade.* The Bush budget does not show budget numbers for the second half of the traditional 10-year budget window. This represents an apparent attempt by the administration to hide the fact that the President's tax cut proposals would keep the government in deficit for the next 10 years.
- *War.* The Bush budget does not include any supplemental funds to pay for the current military buildup in the Middle East, much less to pay for the costs of an expected war against Iraq, which could cost hundreds of billions of dollars according to CBO projections.
- *AMT.* The Bush budget does not propose a serious fix for the individual alternative minimum tax (AMT), despite the fact that under current policies the number of taxpayers affected by the AMT would grow from 3 million this year to 41 million in 2012, and that the administration has acknowledged this problem.
- *Cost of new retirement account tax proposals.* The Bush budget does not show the true costs of the President's back-loaded tax-free savings and retirement account proposals. The budget does not show or acknowledge the hundreds of billions of dollars in revenues that will be lost in future years.
- *Social Security reform.* The Bush budget does not include a proposal to fund reforms that would ensure that the government can meet its long-term commitments to Social Security beneficiaries.
- *Domestic priorities.* The Bush budget does not include sufficient funds to meet high priority domestic needs, in areas such as education, highways, the environment, public safety, and job training. It also tries to hide the fact that cuts in most domestic programs more than offset highlighted increases for a few, select programs.

The President's Fiscal Irresponsibility Is Damaging Domestic Priorities

The President again proposes to slash funding for domestic priorities to finance budget-wrecking tax cuts that primarily benefit the wealthiest Americans. President Bush requests \$782.2 billion in discretionary budget authority for 2004, a decrease of 0.6 percent compared to CBO's most recent estimate of full-year appropriations, adjusted for inflation.¹ That sum, however, includes increases in defense, homeland security, and international affairs, while cutting domestic programs other than homeland security by 4.6 percent. As Table 2 shows, when the Bush proposal for obligation limitations on discretionary transportation programs is accounted for², the President's budget actually cuts funding for domestic programs other than homeland security by 4.8 percent.

Table 2. Comparing the Bush Budget for 2004 Discretionary Programs				
Discretionary budget authority; \$ billions	Baseline*	Bush Budget	Budget Above/ Below Baseline	% Difference
Defense	391.5	399.2	+7.7	+2.0%
International Affairs	26.5	28.6	+2.1	+7.9%
Homeland Security	23.2	24.8	+1.6	+6.9%
Other Domestic	345.5	329.6	-15.8	-4.6%
Total Appropriations	786.7	782.2	-4.4	-0.6%
Memorandum:				
Transportation	42.5	39.6	-2.9	-6.8%
Adjusted Other Domestic	388.0	369.3	-18.7	-4.8%
Adjusted Total Appropriations	829.2	821.8	-7.3	-0.9%

*Because 11 of the 13 2003 appropriations bills have yet to be enacted, the table compares the Bush budget to CBO's most recent estimate of full-year appropriations, adjusted for inflation. See footnote 1 for more information.

Specifically:

- The Bush budget cuts funding for highway construction by \$3.6 billion, a reduction of 11 percent that threatens the jobs of close to 150,000 workers over the next seven years.
- The Bush budget cuts funding for programs included in the No Child Left Behind Act by \$199 million. While the President's budget includes increases for a few select programs, including Title I grants and reading, it eliminates funding for 28 NCLB Act programs and cuts funding for many other programs, including afterschool (42 percent) and Impact Aid (14 percent).
- The Bush budget eliminates 18 other education programs, cuts vocational education by 26 percent, and freezes the Pell Grant maximum at \$4,000.
- The Bush budget cuts funding for the community oriented policing (COPS) program and other local law enforcement by \$1.1 billion, or 32 percent.

- The Bush budget cuts funding for job training and employment services programs for youth, adults, and dislocated workers, despite the persistence of a jobless recovery, by \$713 million, or 11 percent.
- The Bush budget cuts funding for environmental and natural resources programs by \$2.7 billion, or 8.8 percent.
- The Bush budget cuts funding for the Transportation Security Administration by \$557 million, or about 10 percent.
- The Bush budget cuts funding for the public housing capital fund by \$299 million, or 10.2 percent.

In total, over the 2004-2008 period, the proposed cut in funding for domestic programs other than homeland security totals \$102 billion, or 5 percent. These cuts in programs that benefit middle-class and low-income Americans are coming at the same time that the President is proposing hundreds of billions of dollars in new tax cuts for affluent Americans.

Tax Cut Proposals

Despite the projected deficits over the next 10 years, the President has proposed tax cuts that would cost \$1.45 trillion in 2004 through 2013. Including the interest costs that would result from the lost revenues, the tax cuts would add \$1.8 trillion to the deficits over that 10-year period.

The President has proposed an “economic growth package” of new tax cuts that would cost \$640 billion in 2004 through 2013 (it also includes an additional \$31 billion in tax cuts in 2003 and \$3.6 billion in spending for “Personal Re-employment Accounts” in 2003 and 2004). The largest component of the proposal is the elimination of individual income taxes on dividends, which, according to the administration, would reduce revenues by \$360 billion over 10 years. The package also includes an acceleration of the rate cuts enacted in 2001 and scheduled to go into effect in 2006, an acceleration of marriage penalty and child credit provisions enacted in the 2001 legislation, and enhanced depreciation for small business investments.

The economic growth package would do little to stimulate economic growth. Less than 5 percent of the effect of the tax cuts in the package would be felt in 2003, when the economy needs the boost. Furthermore, the benefits of the tax cuts included in the economic growth package go overwhelmingly to the wealthiest Americans. Almost four-fifths (78 percent) of the benefits would go to the 20 percent of taxpayers with the highest incomes. The average annual benefit for taxpayers with incomes of more than \$1 million a year is \$88,873, while the average benefit to the 20 percent of taxpayers in the middle of the income distribution scale is \$265.

Almost four-fifths of the benefits of the economic growth package would go to the 20 percent of taxpayers with the highest incomes.

The President has also proposed making the tax cuts enacted in 2001 permanent instead of allowing them to expire as scheduled under current law.

The President also has a number of other tax cut proposals, including one that would provide for a dramatic increase in back-loaded tax-free savings and retirement accounts. The budget does not show or acknowledge the hundreds of billions of dollars in revenues that will be lost in future years.

Table 3: Tax and Mandatory Spending Proposals in the Bush Budget for Fiscal Year 2004

(\$ billions)	2003	2004	2005	2006	2007	2008	2004- 2008	2004- 2013
Tax Proposals								
Eliminate tax bill sunset	-1	-5	-18	-27	-17	-19	-87	-705
Economic growth plan	-31	-112	-88	-69	-56	-54	-378	-640
Other revenues	1	6	-3	-6	-12	-13	-29	-104
Total revenues	-31	-110	-109	-102	-85	-87	-494	-1,448
Mandatory Spending Proposals								
Medicare and drugs	0	6	10	33	38	43	130	400
Medicaid reform	0	3	1	2	1	2	10	-2
Other mandatory	2	2	-1	3	4	5	13	29
Total mandatory	2	11	11	38	44	50	153	427

¹Because eleven of the 13 regular appropriations bills have yet to be enacted, this analysis compares the President's 2004 request to CBO's most recent estimate of full-year appropriations, adjusted for inflation. In the case of programs funded in the enacted Defense and Military Construction bills, the analysis uses CBO's estimate of the 2003 appropriations provided to those programs, adjusted to maintain the same level of purchasing power in 2004. For all other programs, the analysis uses CBO's August 2002 estimate of the level of funding needed in 2004 to provide the same level of purchasing power provided to agencies on a full-year basis in 2002.

²The budgetary treatment for transportation programs is unique. For most transportation programs, the budget records budget authority as mandatory but outlays as discretionary. It is the annual appropriations process, however, that controls the level of new transportation spending through the use of obligation limitations. Thus, adding the amount of obligation limitations to the President's request for discretionary budget authority provides a more accurate picture of his proposal for spending in appropriations bills.

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